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SIPDIS

SENSITIVE

STATE PASS USTR FOR EBRYAN
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SUBJECT: SAIGONTOURIST: STATE-OWNED ENTERPRISE SYNDROME

1. (SBU) SUMMARY: One of the largest tourism companies in Vietnam, HCMC-based Saigontourist is struggling to develop its tourism business to attract foreign visitors in particular. Saigontourist owns or has an interest in 70 hotels all over Vietnam and employs 15,000 people, but its General Director does not appear to have a grasp of the market value of his company. In addition to hotels, Saigontourist is involved in a web of enterprises, including tour companies, transport companies, airlines and banking. Saigontourist retains much of its inefficient SOE character, despite being partially equitized. END SUMMARY.

2. (SBU) Saigontourist General Director Nguyen Huu Tho described his company to the Consul General as a small, formerly state-owned enterprise (SOE) turned into a giant holding company with 45 affiliated companies, 70 hotels, 6 tour companies and interests in Vietnam Airlines, Pacific Airlines, the Export-Import Bank of Vietnam and more. Mr. Tho said company managers want Saigontourist to be a "mother" company with subsidiary and affiliate companies. The GVN, through the HCMC People's Committee, still holds a 70 percent stake in Saigontourist. According to Mr. Tho, the company undergoes an internal audit annually. Shareholders owning 1,000 or more shares may participate in shareholders' meetings and receive the annual report. Saigontourist is in the process of equitizing its subsidiaries; seven Saigontourist companies have been equitized in 2004.

3. (SBU) CG asked about the value of the company but Tho would say only that the GVN values the company at 1,600 billion VND (approximately \$102 million). He noted, however, that this valuation was based on profits and didn't include the "value" of the company's fixed assets. Mr. Tho said the market value of Saigontourist would be much higher than this valuation, since the Rex Hotel in HCMC alone was worth 1,700 billion VND (approximately \$108 million).

4. (SBU) Saigontourist's hotel business is divided into three categories: affiliated divisions, domestic investment, and foreign joint ventures. The company has 15 hotels/resorts/hotel groups that are affiliated divisions; they are 100 percent owned and managed by Saigontourist. The affiliated division hotels include the Rex, Continental and Majestic Hotels in HCMC. Saigontourist lists about 14 hotels/resorts/hotel groups as domestic investment. These hotels are joint-stock companies of which Saigontourist owns a percentage and which Saigontourist manages. Domestic investment hotels include many of the company's hotels outside the HCMC area, like the Saigon-Can Tho Hotel and the Saigon-Phu Quoc Resort. Saigontourist has some 5 foreign joint venture hotels, in which the company shares ownership with foreign investors and which Saigontourist does not manage. The foreign joint venture hotels include three of HCMC's flagship hotels - the Caravelle, the New World and the Sheraton.

5. (SBU) Mr. Tho acknowledged the challenge of foreign competition and said Saigontourist would meet it through in part through training. Saigontourist has started sending middle managers to Singapore to study hotel/tourism management. Tho also acknowledged HCMC's need for a convention center to develop the city's tourism infrastructure. Saigontourist is looking for investors in a planned convention center complex, but will only invite a few partners to make proposals and does not plan to open the process up to public bidding.

6. (SBU) ConGen contacts in the tourism industry agree that Saigontourist is an inefficient SOE that does have a handle on the requirements of the tourist market in the area. The expat manager of one of Saigontourist's foreign joint venture hotels (protect strictly) told the Consul General the company "doesn't have a clue" of either a business strategy or how to run a world class hotel. The general manager of another top HCMC hotel which is not affiliated with Saigontourist (protect), described the company's managers as incompetent and corrupt. Saigontourist's handling of a recent travel fair in Europe epitomized the company's problems in this manager's mind. During the fair, Saigontourist was represented by older Communist Party-type managers, who neither spoke English nor had any agenda beyond a junket. The officials ignored visitors to the Saigontourist booth, including representatives of travel publications anxious to do stories on Vietnam. Both managers agreed, however, that anyone wanting to get involved in the tourism business in southern Vietnam had no choice but to work with Saigontourist.

17. (SBU) COMMENT: While Saigontourist and some of its subsidiaries are partly equitized, the company retains its inefficient SOE character. The company is too large, too complex and involved in many non-tourism activities (e.g. banking) or activities that are only partly tourism-focused (e.g. airlines). It appears that Saigontourist managers do not have a clear picture of their company's net worth; they are also secretive about the company's balance sheet. Saigontourist is not subject to independent audits, and only large shareholders are privy to company meetings and reports. While control of the firm is in state hands, it is not clear who represents the state's shareholding and this job likely falls to the General Director himself. It is unclear if the General Director reports to anyone, though his selection is reportedly a joint decision by the HCMC People's Committee and Hanoi. Saigontourist wants to be competitive in the region, but for the most part the firm simply sits on a large pile of potentially valuable assets and manages a large group of second-rate hotels.

WINNICK